



Why Baytex's (BTE) Stock Price Rose 30% in December

Description

December was a [great month for many oil and gas stocks](#) such as **Baytex Energy (TSX:BTE)** (NYSE:BTE) stock. With an incredible December return of 30%, Baytex was one of the top performers. What happened in December? Why did Baytex stock price rally so much?

Much of the exceptional stock price performance comes down to management's bullish forecast for 2020 and its continued execution of its plan to deleverage the balance sheet, which was outlined in the company's 2020 budget release in December.

Rising oil prices

I should start off by recognizing that rising oil prices in December also played a part in the Baytex's exceptional stock price performance. Oil prices rallied in December, with the West Texas Intermediate (WTI) oil price up 12% and the Western Canadian Select (WCS) oil price up 25%.

Baytex expects more than \$100 in free cash flow in 2020

On to the company-specific news, which is the most important driver of stock price movements. In December, Baytex released its expectations that the company will remain free cash flow positive into 2020.

This is not a given in the oil and gas industry, as it can be difficult to achieve given the high capital requirements of the business and the fluctuating commodity prices that individual companies have little to no control over. So, this is good news and a good reason for Baytex stock price to rally.

Baytex remains undervalued

With this, investors are increasingly realizing that Baytex is [extremely undervalued](#). Trading at just over three times debt-adjusted cash flow, this company, which is reducing debt at a feverish pace and

churning out healthy free cash flow, is severely undervalued.

Baytex's solid fundamentals are coming to light

Capping off the review of the company's operational/financial performance, we should look to Baytex's acquisition of Raging River back in 2018. This acquisition turned the tide on Baytex, as it provided the company with diversification, a stronger cash flow profile, a stronger growth profile, and a way out of its once-crippling debt.

The acquisition gave Baytex access to WTI pricing for 30% of its liquids production and access to the premium Louisiana Light Sweet pricing for 26% of its liquids production.

Foolish bottom line

While Baytex stock has given back some of its December gains, I don't feel discouraged, as stocks usually do not move in a straight line up. Volatility is to be expected, especially with higher-risk stocks like Baytex.

At the end of the day, Baytex still has significant room to move higher given how undervalued the stock is, the quality of its assets, and its business model. Today represents a good time to take advantage of what I believe to be a mispricing in Baytex stock.

In closing, I would like to remind Foolish investors of our belief in holding great businesses for the long term. While this belief remains intact, we are also aware that sometimes, short-term stock price movements create opportunities to create wealth. By blending this long-term focus with a keen eye for short-term stock mispricings, we can use both strategies in harmony, and our quest for financial freedom can be fulfilled.

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